

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

The Auditor of Public Accounts has completed the Letcher County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Governmental Fund Type fund balances increased by \$319,538 from the beginning of the year, resulting in a cash surplus of \$3,039,436 as of June 30, 2003. Of this cash surplus, \$1,852,701 is reserved for the completion of Local Government Economic Development grant capital projects. The Proprietary Fund Type fund balance decreased by \$4,721 from the beginning of the year, resulting in a cash surplus of \$28,235 as of June 30, 2003.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2003, was \$4,181,000. Future collections of \$6,811,213 are needed over the next 24 years to pay all bonded debt principal and interest.

#### **Report Comments:**

Reference Number 2003-1	The Fiscal Court Should Review The Administrative Code Annually
Reference Number 2003-2	The County Should Maintain Timesheets For All Employees
Reference Number 2003-3	The County Judge Executive's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
Reference Number 2003-4	The County Jailer Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
Reference Number 2003-5	The Fiscal Court Should Maintain Correct Records
Reference Number 2003-6	The County Treasurer Should Prepare An Accurate Schedule of Expenditures of Federal Awards
Reference Number 2003-7	The Jailer Should Submit His Annual Jail Canteen Report To The County Treasurer
Reference Number 2003-8	Jail Operating Expenditures Should Be Paid From The Jail Fund
Reference Number 2003-9	The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
Reference Number 2003-10	The County Lacks Adequate Segregation Of Duties

#### **Deposits:**

The fiscal court's deposits were not adequately insured and collateralized by bank securities.



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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Letcher County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Letcher County, Kentucky, as of June 30, 2003, and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2005, on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Letcher County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Review The Administrative Code Annually
- The County Should Maintain Timesheets For All Employees
- The County Judge Executive's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
- The County Jailer Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development
- The Fiscal Court Should Maintain Correct Records
- The County Treasurer Should Prepare An Accurate Schedule Of Expenditures Of Federal Awards
- The Jailer Should Submit His Annual Jail Canteen Report To The County Treasurer
- Jail Operating Expenditures Should Be Paid From The Jail Fund
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
January 20, 2005

LETCHER COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Carroll A. Smith	County Judge/Executive
Wayne Fleming	Magistrate
Jim Ward	Magistrate
Randall Caudill	Magistrate
Durrward Trey Narramore	Magistrate
Terry Adams	Magistrate

**Other Elected Officials:**

Harold Bolling	County Attorney
Gary Cornett	Jailer
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Danny Webb	Sheriff
Randy Hall	Property Valuation Administrator
John Cornett	Coroner

**Appointed Personnel:**

Phillip Hampton	County Treasurer
Robin Kiser	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

LETCHER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 2,790,500	\$ 1,359	\$ 247,775	\$ 28,235
Due From Jail Fund				4,179
Total Assets	<u>2,790,500</u>	<u>1,359</u>	<u>247,775</u>	<u>32,414</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Bond Payments			3,933,225	
Total Other Resources			<u>3,933,225</u>	
Total Assets and Other Resources	<u>\$ 2,790,500</u>	<u>\$ 1,359</u>	<u>\$ 4,181,000</u>	<u>\$ 32,414</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Totals  
(Memorandum Only)  
Primary  
Government

\$ 3,067,869  
4,179  
3,072,048

3,933,225  
3,933,225

\$ 7,005,273

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Bonds:				
Series 1964 (Note 5A)			\$ 8,000	
Series 1999 (Note 5B)			4,173,000	
Due To Canteen Fund	\$ 4,179			
Payroll Revolving Account	198			
Total Liabilities	<u>4,377</u>		<u>4,181,000</u>	
<u>Equity</u>				
Fund Balances:				
Reserved	1,852,701			32,414
Unreserved	933,422	1,359		
Total Equity	<u>2,786,123</u>	<u>1,359</u>		<u>32,414</u>
Total Liabilities and Equity	<u>\$ 2,790,500</u>	<u>\$ 1,359</u>	<u>\$ 4,181,000</u>	<u>\$ 32,414</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Totals  
(Memorandum Only)  
Primary  
Government

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\$ 8,000  
4,173,000  
4,179  
198

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4,185,377

1,885,115  
934,781

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2,819,896

\$ 7,005,273

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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPES

LETCHER COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,888,183	\$ 1,297,166	\$ 258,290	\$ 2,453,653
Other Financing Sources:				
Transfers In	359,216	300,000	303,468	
Total Cash Receipts	<u>3,247,399</u>	<u>1,597,166</u>	<u>561,758</u>	<u>2,453,653</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	2,844,154	1,097,376	551,551	1,584,868
Other Financing Uses:				
Schedule of Other Expenditures				
Transfers Out	670,953	359,216		458,468
Bonds:				
Principal Paid				
Interest Paid				
Total Cash Disbursements	<u>3,515,107</u>	<u>1,456,592</u>	<u>551,551</u>	<u>2,043,336</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	(267,708)	140,574	10,207	410,317
Cash Balance - July 1, 2002 *	<u>572,175</u>	<u>360,626</u>	<u>7,557</u>	<u>1,556,554</u>
Cash Balance - June 30, 2003 *	<u>\$ 304,467</u>	<u>\$ 501,200</u>	<u>\$ 17,764</u>	<u>\$ 1,966,871</u>

\* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2003  
(Continued)

Special Revenue Fund Type		Debt Service Fund Type		Totals (Memorandum Only)
Forestry Fund	Senior Citizens Fund	Public Properties Corporation 1964 Bond Issue	Public Properties Corporation 1999 Bond Issue	
\$ 3,703	\$ 138,440	\$ 3	\$ 133,670	\$ 7,173,108
	325,000	8,560	192,393	1,488,637
3,703	463,440	8,563	\$ 326,063	\$ 8,661,745
3,642	473,019		\$	\$ 6,554,610
		2		2
				1,488,637
		8,000	88,000	96,000
		560	202,398	202,958
3,642	473,019	8,562	\$ 290,398	\$ 8,342,207
61	(9,579)	1	\$ 35,665	\$ 319,538
107	10,770	61	212,048	2,719,898
\$ 168	\$ 1,191	\$ 62	\$ 247,713	\$ 3,039,436

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE



LETCHER COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	Jail Canteen Fund
<u>Cash Receipts</u>	
Jail Canteen Receipts	\$ 106,930
Total Cash Receipts	106,930
<u>Cash Disbursements</u>	
Jail Canteen Disbursements	111,651
Total Cash Disbursements	111,651
Deficiency of Cash Receipts Under Cash Disbursements	(4,721)
Cash Balance - July 1, 2002	32,956
Cash Balance - June 30, 2003	\$ 28,235

The accompanying notes are an integral part of the financial statements.

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COMBINED STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPE



LETCHER COUNTY  
COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 106,930
Payments to Suppliers	(111,651)
Net Cash Used By Operating Activities	(4,721)
Cash and Cash Equivalents - July 1, 2002	32,956
Cash and Cash Equivalents - June 30, 2003	\$ 28,235

. The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Public Properties Corporation - 1964 and 1999 Bond Issues as part of the reporting entity.

Public Properties Corporation

The Public Properties Corporation - 1964 and 1999 Bond Issues (the Corporation) is an entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Letcher County Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

Kentucky law provides for election of the officials above from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Letcher County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Letcher County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Letcher County Special Revenue Fund Type included the following county funds: Forestry Fund and Senior Citizens Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation-1964 Bond Issue and the Public Properties Corporation - 1999 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Letcher County Enterprise Fund Type includes the jail canteen fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county prepares its financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Letcher County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Letcher County Public Properties Corporation Fund - 1964 Bond Issue and the Letcher County Public Properties Corporation Fund - 1999 Bond Issue because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund to comply with these requirements. The Governor's Office for Local Development does not require these funds to be budgeted

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Letcher County Fiscal Court: Letcher County Industrial Development Authority, Letcher County Water and Sewer District, Letcher County Library District, and Letcher County Extension District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

LETCHER COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 3. Deposits and Investments

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$255,393 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 200,000
Collateralized with securities held by pledging depository institution in the county's name	425,638
Uncollateralized and uninsured	<u>255,393</u>
Total	<u>\$ 881,031</u>

Note 4. Local Government Economic Assistance Fund

The ending cash balance of Local Government Economic Assistance Fund was \$1,966,871 as of June 30, 2003. Of this amount, \$1,852,701 was reserved for the completion of capital projects. The Governor's Office for Local Development authorized certain capital construction projects for local administration from the coal severance tax project plan of House Bill 502. These projects were not completed at fiscal year end and funds must be reserved for their completion. The beginning grant balance was \$1,423,589. During fiscal year ended June 30, 2003, the county deposited Local Government Economic Development Fund grant receipts totaling \$895,000 into the Local Government Economic Assistance Fund. Of this amount, \$460,888 was expended leaving a remaining balance of \$1,852,701.

LETCHER COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 5. Long-Term Debt

A. 1964 Bond Issue

On May 1, 1964, the Letcher County Public Properties Corporation issued bonds at a 3.5 percent interest rate. As of June 30, 2003, the principal amount outstanding was \$8,000. Future bond payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	280	8,000
Totals	\$ 280	\$ 8,000

B. 1999 Bond Issue

On January 18, 1999, the Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Letcher County Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement for the purpose of obtaining office rental space for the AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank their pro rated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirements for the bonds.

The use allowance payment commences with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate the AOC to do so.

As of June 30, 2003, the principal balance remaining was \$4,173,000. Future bond payments are as follows:

LETCHER COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 5. Long-Term Debt (Continued)

A. 1999 Bond Issue (Continued)

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	198,218	91,000
2005	193,895	97,000
2006	189,288	101,000
2007	184,490	107,000
2008	179,408	112,000
2009-2013	740,763	657,000
2014-2018	638,305	842,000
2019-2023	421,623	1,083,000
2024-2027	131,718	1,083,000
Totals	<u>\$ 2,877,708</u>	<u>\$ 4,173,000</u>

Note 6. Landfill Closure Costs

KAR 48.310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars of the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. As of June 30, 2003, 100 percent of the landfill capacity had been used.

Estimated closure costs range between \$2,000,000 and \$4,000,000. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. However, it is highly probable that Letcher County will not incur this cost, as it is high on the State's list of landfill closures that will be done from money raised through House Bill 174. House Bill 174 transfers the responsibility for closing the landfill from the county to the state. The state will generate funds for landfill closure from the sale of bonds and from the imposed solid waste tipping fee. According to House Bill 174, the Environmental and Public Protection Cabinet will suspend enforcement activity until July 2006.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



LETCHER COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 4,016,788	\$ 2,888,183	\$ (1,128,605)
Road and Bridge Fund	1,148,470	1,297,166	148,696
Jail Fund	445,075	258,290	(186,785)
Local Government Economic Assistance Fund	3,691,124	2,453,653	(1,237,471)
<u>Special Revenue Fund Type</u>			
Forestry Fund	3,893	3,703	(190)
Senior Citizens Fund	412,575	138,440	(274,135)
	\$ 9,717,925	\$ 7,039,435	\$ (2,678,490)
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 9,717,925
Add: Budgeted Prior Year Surplus			1,157,789
Less: Other Financing Uses			
Transfers to Public Property Corporation Fund			(200,953)
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			\$ 10,674,761

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SCHEDULE OF OPERATING REVENUE



LETCHER COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

GOVERNMENTAL FUND TYPES				
Revenue Categories	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	Totals (Memorandum Only)
Taxes	\$ 1,166,947	\$ 3,703		\$ 1,170,650
In Lieu Tax Payments	1,130			1,130
Excess Fees	28,000			28,000
Intergovernmental Revenues	4,670,561	128,558	\$ 128,000	4,927,119
Charges for Services	831,117			831,117
Miscellaneous Revenues	136,431	9,444		145,875
Interest Earned	63,106	438	5,673	69,217
 Total Operating Revenue	 \$ 6,897,292	 \$ 142,143	 \$ 133,673	 \$ 7,173,108

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



LETCHER COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 698,812	\$ 670,993	\$ 27,819
Protection to Persons and Property	1,271,763	1,036,687	235,076
General Health and Sanitation	1,310,842	1,202,223	108,619
Social Services	21,500	11,206	10,294
Recreation and Culture	260,461	133,765	126,696
Roads	1,810,465	1,334,685	475,780
Debt Service	1,648	1,620	28
Capital Projects	3,859,513	969,957	2,889,556
Administration	952,412	716,813	235,599
 Total Operating Budget - General Fund Type	 \$ 10,187,416	 \$ 6,077,949	 \$ 4,109,467
 Transfers to Public Property Corporation Fund	 200,953	 200,953	
 TOTAL BUDGET - GENERAL FUND TYPE	 <u>\$ 10,388,369</u>	 <u>\$ 6,278,902</u>	 <u>\$ 4,109,467</u>

LETCHER COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

<u>Expenditure Categories</u>	<u>SPECIAL REVENUE FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Protection to Persons and Property	\$ 4,000	\$ 3,642	\$ 358
General Health and Sanitation	48,600	48,299	301
Social Services	376,245	372,696	3,549
Administration	58,500	52,024	6,476
<b>TOTAL BUDGET - SPECIAL REVENUE FUND TYPE</b>	<u>\$ 487,345</u>	<u>\$ 476,661</u>	<u>\$ 10,684</u>

SCHEDULE OF OTHER EXPENDITURES



LETCHER COUNTY  
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	<u>Public Properties Corporation 1964 Bond Issue</u>
Miscellaneous	<u>\$ 2</u>
Totals	<u><u>\$ 2</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Letcher County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Letcher County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- |                         |   |
|-------------------------|---|
| Reference Number 2003-1 | The Fiscal Court Should Review The Administrative Code Annually   |
| Reference Number 2003-2 | The County Should Maintain Timesheets For All Employees   |
| Reference Number 2003-3 | The County Judge Executive's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development |
| Reference Number 2003-4 | The County Jailer Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development            |
| Reference Number 2003-5 | The Fiscal Court Should Maintain Correct Records  |
| Reference Number 2003-6 | The County Treasurer Should Prepare An Accurate Schedule of Expenditures of Federal Awards  |
| Reference Number 2003-7 | The Jailer Should Submit His Annual Jail Canteen Report To The County Treasurer   |
| Reference Number 2003-8 | Jail Operating Expenditures Should Be Paid From The Jail Fund   |
| Reference Number 2003-9 | The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits                    |



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Letcher County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

Reference Number 2003-10 The County Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
January 20, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Letcher County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Letcher County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Letcher County's management. Our responsibility is to express an opinion on Letcher County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Letcher County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Letcher County's compliance with those requirements.

In our opinion, Letcher County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Letcher County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Letcher County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
January 20, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



LETCHER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Letcher County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. This condition is reported as a material weakness.
3. Nine instances of noncompliance material to the financial statements of Letcher County were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal awards programs in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Letcher County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Letcher County reported in Part C of this schedule.
7. The program tested as a major program was: Disaster and Emergency Assistance Grants – Flood (CFDA #97.036)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Letcher County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES:

**Reference Number 2003-1**

The Fiscal Court Should Review The Administrative Code Annually

We found no evidence that the fiscal court annually reviews the administrative code. Additionally, we were unable to determine when the fiscal court adopted the administrative code. According to KRS 68.005 the fiscal court shall review the county administrative code during the month of June and may by two-thirds majority of the entire fiscal court amend the county administrative code at that time. We recommend that fiscal court approval of the administrative code be documented in the fiscal court minutes. Furthermore, we recommend that the fiscal court review the administrative code on an annual basis as required by KRS 68.005. The review should be documented in the fiscal court minutes as evidence of fiscal court approval.

*County Judge/Executive Carroll Smith's Response: I agree. We are currently reviewing the admin code annually.*

LETCHER COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

**Reference Number 2003-2**

The County Should Maintain Timesheets For All Employees

The county does not maintain timesheets for all employees. Since timesheets were not maintained for all employees we were unable to determine if they were eligible to participate in the County Employees Retirement System. We did note some instances where timecards were maintained but were not signed by employees and supervisors. KRS. 337.320 requires that every employer keep records of the hours worked each day and each week for each employee. In addition, employees must work an average of 100 hours per month to be eligible to participate in the County Employees Retirement System. We recommend that timesheets be maintained for all employees and be signed by both the employee and the supervisor. As evidence of approval, both the employee and the supervisor should sign timecards.

*County Judge/Executive Carroll Smith's Response: I agree. All county employees except county treasurer currently submit time sheets. County treasurer will start immediately.*

**Reference Number 2003-3**

The County Judge Executive's Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development

The payroll officer did not pay the County Judge/Executive's salary in accordance with the salary set by the Governor's Office for Local Development for calendar year 2002 and 2003. During the test of payroll, we found that the following salary overpayments occurred.

Description	Calendar Year 2002	Calendar Year 2003
Salary Paid	\$ 71,758	\$ 70,872
Governor's Office for Local Development Salary Limit	<u>(66,706)</u>	<u>(68,306)</u>
Salary Overpayment	<u>\$ 5,052</u>	<u>\$ 2,566</u>

The County Judge/Executive was overpaid a total salary of \$7,618 between calendar year 2002 and calendar year 2003. We recommend that the County Judge/Executive repay the \$7,618 salary overpayment to the fiscal court. We further recommend, that the county properly pay all officials in accordance with the salaries established by the Governor's Office for Local Development. Furthermore, we recommend that the county treasurer monitor payroll transactions to ensure salary payments are within the limits set by the Governor's Office for Local Development.

*County Judge/Executive Carroll Smith's Response: I agree. I will pay the county back for overpaid salary.*

LETCHER COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

**Reference Number 2003-4**

The County Jailer Salary Should Be Paid In Accordance With The Salary Set By The Governor's Office For Local Development

The payroll officer did not pay the County Jailer's salary in accordance with the salary set by the Governor's Office for Local Development for calendar year 2002 and 2003. During the test of payroll, we found that the following salary overpayments occurred.

Description	Calendar Year 2002	Calendar Year 2003
Salary Paid	\$ 71,758	\$ 70,872
Governor's Office for Local Development Salary Limit	<u>(66,706)</u>	<u>(68,306)</u>
Salary Overpayment	<u>\$ 5,052</u>	<u>\$ 2,566</u>

The county jailer was overpaid a total salary of \$7,618 between calendar year 2002 and calendar year 2003. We recommend that the county jailer repay the \$7,618 salary overpayment to the fiscal court. We further recommend, that the county properly pay all officials in accordance with the salaries established by the Governor's Office for Local Development. Furthermore, we recommend that the county treasurer monitor payroll transactions to ensure salary payments are within the limits set by the Governor's Office for Local Development.

*County Judge/Executive Carroll Smith's Response: I agree.*

**Reference Number 2003-5**

The Fiscal Court Should Maintain Correct Records

The quarterly financial statement was not accurately prepared. The cash balance reflected on the county's financial statements did not agree with the reconciled bank cash balance for the general fund. The variance between the two reports was \$152. These amounts should agree and any variances should be reconciled. In addition, prior year surplus for the LGEA fund was not correctly stated on the county's financial statement. The county's financial statement reflects a surplus balance of \$306,554 when the actual surplus balance was \$1,556,554. Therefore, the prior year surplus for the LGEA Fund was understated by \$1,250,000 on the county's quarterly financial statement. We also noted that the county treasurer did not post CDBG receipts totaling \$39,563 and disbursements totaling \$39,563 on the quarterly financial statement. The State Local Finance Officer, under the authority of KRS 68.210 requires the County Treasurer and Finance Officer to keep accurate records and detailed accounts of the financial statements of the County. We recommend that the county treasurer and the finance officer investigate and reconcile any variances between the book balance and bank balance. In addition, we recommend that all transactions be posted to the county's financial statement.

*County Judge/Executive Carroll Smith's Response: I agree*

LETCHER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

**Reference Number 2003-6**

The County Treasurer Should Prepare An Accurate Schedule Of Expenditures Of Federal Awards

The county's schedule of expenditures of federal awards was not accurate. It is the county's responsibility to identify the total dollar amount of federal expenditures and to obtain a single audit if federal expenditures exceed \$300,000 during the fiscal year. During the test of this schedule, it came to the auditor's attention that all federal expenditures were not accounted for on the schedule. Once these expenditures were added to the county's schedule of expenditures of federal awards the amount exceeded \$300,000 and a single audit was required. Because of this, it is very important that the county treasurer maintain a running total of federal grant expenditures and to maintain detailed grant records. The county treasurer should prepare a separate file for each grant. Within each file, the county treasurer should maintain a breakdown of federal share, state share, and local share of grant expenditures. This information would then be used to compile the schedule of expenditures of federal awards at the end of the fiscal year. We strongly recommend that the county implement procedures to ensure that the schedule of expenditures of federal awards is accurate.

*County Judge/Executive Carroll Smith's Response: I agree. Better accounting processes are being implemented.*

**Reference Number 2003-7**

The Jailer Should Submit His Annual Jail Canteen Report To The County Treasurer

The Jailer did not submit a jail canteen annual report to the county treasurer as required by KRS 441.135. In addition, the jailer did not prepare his monthly reports and ledgers in accordance with the Uniform System of Accounts. We noted the following deficiencies with the monthly reports and ledgers:

- Deposits were not itemized according to source.
- Disbursements were not classified according to expenditure type.

We recommend the jailer itemize all receipts according to source and classify all disbursements according to expenditure type. In addition, we recommend that the jailer submit an annual settlement of the jail canteen account to the county treasurer as required by KRS 441.135. The annual settlement should be submitted to the treasurer during an official fiscal court meeting and should be documented in the fiscal court minutes.

*County Judge/Executive Carroll Smith's Response: I agree*

LETCHER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

**Reference Number 2003-8**

Jail Operating Expenditures Should Be Paid From The Jail Fund

Jail operating expenditures should not be paid from the jail canteen account. We found that numerous operating expenditures were paid from the canteen account rather than the jail fund maintained by the fiscal court. These expenditures consisted of routine jail operating supplies, office supplies and inmate personal hygiene items. The canteen operations are authorized pursuant to KRS 441.135(1)(2), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. Therefore, jail operating expenditures are not an allowable expense of the jail canteen fund. We recommend that only expenditures for the benefit and recreation of the prisoners be made from the jail canteen account. Operating expenditures totaling \$4,179 will be disallowed and should be repaid from the jail fund.

*County Judge/Executive Carroll Smith's Response: I agree*

**Reference Number 2003-9**

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On June 30, 2003, \$255,393 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge/Executive Carroll Smith's Response: I agree*

LETCHER COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

REPORTABLE CONDITION:

**Reference Number 2003-10**

The County Lacks Adequate Segregation Of Duties

There is a lack of segregation of duties relating to solid waste receipts. During testing, it came to our attention that employees have access to cash drawers that are not assigned to them. In addition, we found that separate daily checkout sheets were not prepared for each cash drawer. Monthly reports were not maintained and reconciled to the daily posting report and bank deposits. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. However, the lack of adequate segregation of duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The county should consider requiring employees to utilize only the cash drawers assigned to them. In addition, separate daily checkout sheets should be prepared for each drawer. At the end of each month, a monthly report should be maintained and reconciled to the daily posting reports and bank deposits. We recommend that the county develop and implement procedures to help strengthen the internal control structure of solid waste receipts.

*County Judge/Executive Carroll Smith's Response: I agree. All monies will be kept separate and we will do monthly reports.*

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Review The Administrative Code Annually
- The Fiscal Court Minutes Should Be Filed In A Timely Manner
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Jailer Should Properly Account For Jail Canteen Transactions
- The County Treasurer Should Review Payroll Related Reports
- The Fiscal Court Should Maintain Correct Records

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

NONE.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



LETCHER COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through Governor's Office for Local Development		
Emergency Shelter Grants Program (CFDA #14.231)		
Community Development Block Grants-		
Blackey Water Project (CFDA # 14.228)		
	Not Available	<u>\$ 39,563</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 39,563</u>
<u>U.S. Appalachian Regional Commission</u>		
Passed-Through Governor's Office for Local Development		
Appalachian Regional Commission Grants-		
Flex Grant (CFDA #23.011)		
	Not Available	<u>10,000</u>
Total U.S Appalachian Regional Commission		<u>\$ 10,000</u>

LETCHER COUNTY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 1,937
Flood Control -		
Disaster 1388	Not Available	47,223
Disaster 1414	Not Available	67,730
Disaster 1407	Not Available	29,740
Disaster 1454 (CFDA #97.036)	Not Available	<u>32,247</u>
Total U.S. Federal Emergency Management Agency		<u>\$ 178,877</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-Through State Special Program for Aging -		
Title III D (CFDA # 93.043)	Not Available	\$ 1,474
Title III B (CFDA # 93.044)	Not Available	25,311
Title III C1 (CFDA # 93.045)	Not Available	39,339
Title III C2 (CFDA # 93.045)	Not Available	17,618
USDA Meals (CFDA # 10.570)	Not Available	<u>39,469</u>
Total U.S. Department of Health and Human Services		<u>\$ 123,211</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 351,651</u></u>

LETCHER COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Letcher County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2003

APPENNDIX A



CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

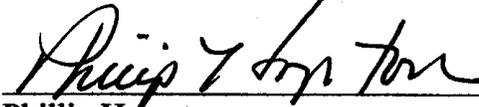
LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Carroll A. Smith  
County Judge/Executive



Phillip Hampton  
County Treasurer

